

AR21



*File*  
**SKYLINE HOTELS**

**THE CANADIAN CHAIN**  
**LA CHAINE CANADIENNE**  
**ANNUAL REPORT 1977**

353  
17  
370.50



## SKYLINE TORONTO

800 comfortable rooms and split level suites, a choice of live entertainment, fine dining in the Cloud Room, 2 theatres, shopping concourse, health club, indoor pool, convention facilities for 10 to 2,000 and convenient location near the International Airport, make the Skyline Toronto everything you want in a hotel.



## THE OLD MILL

Dining and dancing in a traditional setting — one of Toronto's historic landmarks overlooking the Humber Valley. Banquet and meeting facilities for up to 800.



# ANNUAL REPORT 1977



## SKYLINE HOTELS LIMITED and subsidiary



SKYLINE HOTELS (MONTREAL) LIMITED

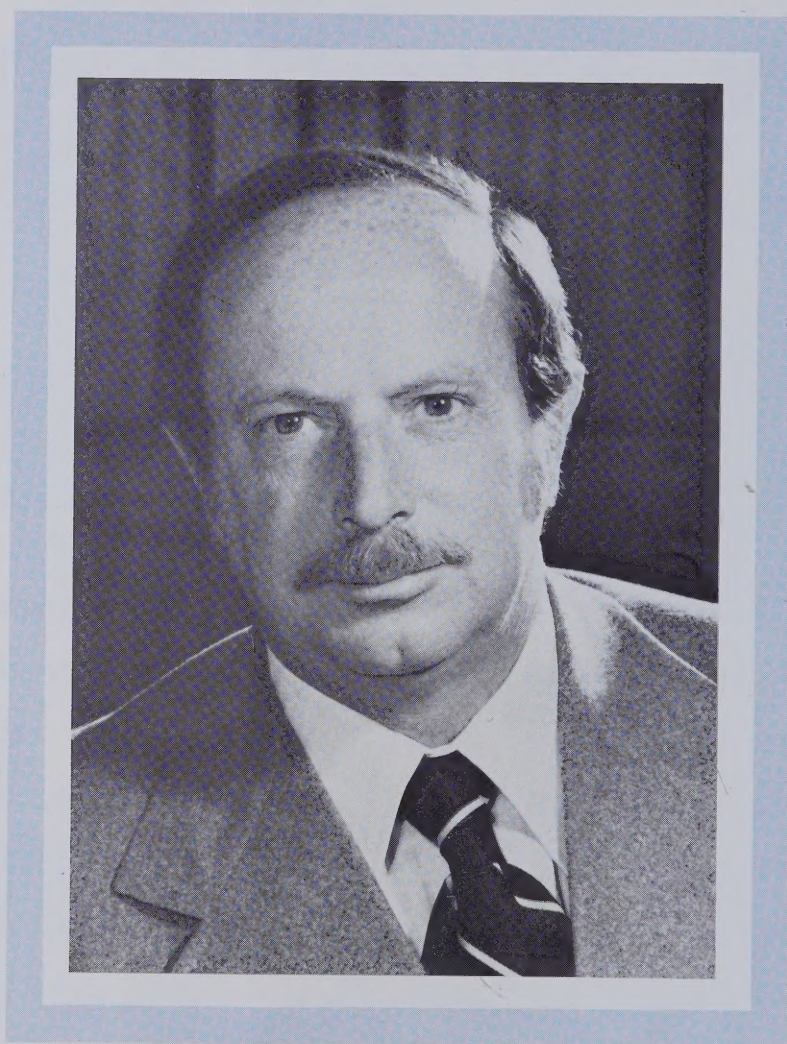
### FINANCIAL HIGHLIGHTS YEAR ENDING DECEMBER 31, 1977 WITH 1976 COMPARISONS

	1977	1976
Gross revenue .....	\$30,478,187	\$33,276,421
Loss before extraordinary items .....	\$ (771,039)	\$(1,283,771)
Per Share .....	(.33¢)	(.55¢)
Net Income (Loss) for the year .....	\$ 1,954,707	\$(1,582,081)
Per Share .....	.84¢	(.68¢)
Funds flow from (to) operations .....	\$ 533,164	\$ (300,822)
Per Share .....	.23¢	(.13¢)
Number of shares outstanding .....	2,315,180	2,315,180

Hedgson 1,558,640

### CONTENTS

	Page		Page
Skyline Properties .....	IFC	Consolidated Statement of Income .....	7
Financial Highlights .....	1	Consolidated Statement of Changes in Financial Position .....	8
President's Message .....	2 & 3	Notes to the Consolidated Financial Statements .....	9 - 12
Consolidated Balance Sheet .....	4 & 5	Skyline Properties .....	IBC
Consolidated Statement of Surplus .....	6		





## TO THE SHAREHOLDERS

Your company has shown an improvement in 1977 over the previous period and has continued to improve during the early part of 1978. However, with the spiralling costs of non-controllables such as heat, light, power and real estate taxes, I feel our industry is still a long way from making a complete recovery.

All properties have shown a marked improvement, other than the Montreal operation which has accounted for a substantial part of our operating loss. This operation is being reviewed on a monthly basis and unless the economic situation improves in the Province of Quebec, and Montreal in particular, action will be taken.

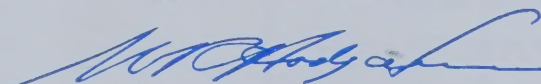
During the year 1977, your company disposed of its English subsidiaries at what we believe to be the peak of the hotel market in London. The disposal of these operations resulted in a substantial capital gain.

Since that time, we have arranged with institutions a \$9,000,000 mortgage on the Toronto property, and by so doing, have improved our working capital position considerably and retired all bank borrowings, with the exception of an amount being used as an operating credit.

Unfortunately, I cannot say to you that you can expect a complete turnaround, however, I do feel the worst is now behind us and any improvement in the economy should be reflected in our results.

May I thank you for your continued support.

Yours very truly,

A handwritten signature in blue ink, appearing to read "W. R. Hodgson", written in a cursive style.

W. R. Hodgson,  
President.

**SKYLINE HOTELS LIMITED**  
*(Under The Business Corporations Act, Ontario)*  
**CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1977**  
*(with prior year's figures for comparison)*

**ASSETS**

	1977	1976
<b>CURRENT ASSETS:</b>		
Cash .....	\$ 42,599	\$ 108,397
Accounts receivable .....	1,652,853	2,442,862
Inventories .....	595,998	734,399
Prepaid expenses and sundry assets .....	559,028	544,751
Total current assets .....	<u>2,850,478</u>	<u>3,830,409</u>
<b>FIXED ASSETS (Note 2) .....</b>	<u>30,815,306</u>	<u>34,435,107</u>
<b>LAND HELD FOR FUTURE DEVELOPMENT (Note 2) .....</b>	<u>—</u>	<u>696,926</u>
<b>DEFERRED COSTS:</b>		
Development costs of proposed projects .....	—	192,021
Unamortized opening and establishment costs .....	504,486	888,864
Unamortized financing costs .....	196,305	210,589
Total deferred costs .....	<u>700,791</u>	<u>1,291,474</u>
<b>OTHER ASSETS:</b>		
Loans and deposits receivable (Note 6) .....	160,623	211,480
Organization expenses .....	7,439	80,423
Total other assets .....	<u>168,062</u>	<u>291,903</u>
<b>TOTAL .....</b>	<u><u>\$34,534,637</u></u>	<u><u>\$40,545,819</u></u>

Approved by the Board:

W. R. Hodgson, Director

J. W. V. Andrews, Director

**AUDITORS' REPORT**

To the Shareholders of Skyline Hotels Limited:

We have examined the consolidated balance sheet of Skyline Hotels Limited as at December 31, 1977 and the consolidated statements of income, surplus, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.



**SKYLINE HOTELS LIMITED**  
*(Under The Business Corporations Act, Ontario)*  
**CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1977**  
*(with prior year's figures for comparison)*

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	1977	1976
<b>CURRENT LIABILITIES:</b>		
Bank indebtedness (Notes 3 and 4) . . . . .	\$ 2,529,738	\$ 2,383,811
Accounts payable and accrued liabilities . . . . .	4,609,393	5,949,225
Long-term debt due within one year . . . . .	639,165	895,940
Total current liabilities . . . . .	<u>7,778,296</u>	<u>9,228,976</u>
 LONG-TERM DEBT (Notes 3 and 4) . . . . .	 <u>21,479,801</u>	 <u>27,847,622</u>
 DEFERRED INCOME TAXES . . . . .	 <u>561,027</u>	 <u>708,415</u>
 <b>SHAREHOLDERS' EQUITY:</b>		
Capital stock:		
Authorized — 6,000,000 common shares without par value		
Issued and fully paid — 2,315,180 shares . . . . .	2,951,257	2,951,257
Surplus (deficit) . . . . .	1,764,256	(190,451)
Total shareholders' equity . . . . .	<u>4,715,513</u>	<u>2,760,806</u>
 TOTAL . . . . .	 <u><u>\$34,534,637</u></u>	 <u><u>\$40,545,819</u></u>

*The accompanying notes are an integral part of the financial statements.*

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada, May 19, 1978

DELOITTE, HASKINS & SELLS Chartered Accountants

**SKYLINE HOTELS LIMITED**  
**CONSOLIDATED STATEMENT OF SURPLUS**  
**For The Year Ended December 31, 1977**  
*(with prior year's figures for comparison)*

	1977	1976
(DEFICIT) RETAINED EARNINGS AT BEGINNING OF THE YEAR . . .	\$ (304,767)	\$ 1,277,314
NET INCOME (LOSS) FOR THE YEAR . . . . .	1,954,707	(1,582,081)
TRANSFER FROM CONTRIBUTED SURPLUS ON SALE OF SUBSIDIARIES . . . . .	114,316	—
RETAINED EARNINGS (DEFICIT) AT END OF THE YEAR . . . . .	<u>1,764,256</u>	<u>(304,767)</u>
CONTRIBUTED SURPLUS . . . . .	<u>—</u>	<u>114,316</u>
SURPLUS (DEFICIT) AT END OF THE YEAR . . . . .	<u>\$ 1,764,256</u>	<u>\$ (190,451)</u>

*The accompanying notes are an integral part of the financial statements.*



**SKYLINE HOTELS LIMITED**  
**CONSOLIDATED STATEMENT OF INCOME**  
**For The Year Ended December 31, 1977**  
*(with prior year's figures for comparison)*

	1977	1976
REVENUE .....	\$30,478,187	\$33,276,421
COST OF SALES AND OPERATING EXPENSES .....	27,294,268	30,209,904
EARNINGS BEFORE THE UNDERNOTED ITEMS .....	<u>3,183,919</u>	<u>3,066,517</u>
OTHER EXPENSES:		
Interest on long-term debt .....	2,430,674	2,785,255
Other interest .....	220,081	449,558
Amortization of financing costs .....	37,091	37,317
Depreciation and amortization of fixed assets .....	1,512,958	1,609,722
Amortization of opening and establishment costs .....	125,390	252,668
	<u>4,326,194</u>	<u>5,134,520</u>
LOSS BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS .....	<u>1,142,275</u>	<u>2,068,003</u>
REDUCTION OF (PROVISION FOR) INCOME TAXES		
Current .....	—	(132,526)
Deferred .....	371,236	916,758
	<u>371,236</u>	<u>784,232</u>
LOSS FOR THE YEAR BEFORE EXTRAORDINARY ITEMS .....	<u>771,039</u>	<u>1,283,771</u>
EXTRAORDINARY ITEMS (net of related income taxes):		
Gain on sale of subsidiaries (Note 5) .....	2,872,658	—
Loss on closure and transfer of head office .....	—	(152,258)
Exchange loss on foreign currency financing .....	(146,912)	(146,052)
	<u>2,725,746</u>	<u>(298,310)</u>
NET INCOME (LOSS) FOR THE YEAR .....	<u>\$ 1,954,707</u>	<u>\$(1,582,081)</u>
(LOSS) PER SHARE BEFORE EXTRAORDINARY ITEMS .....	<u>\$ (.33)</u>	<u>\$ (.55)</u>
EARNINGS (LOSS) PER SHARE .....	<u>\$ .84</u>	<u>\$ (.68)</u>

*The accompanying notes are an integral part of the financial statements.*

**SKYLINE HOTELS LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**For The Year Ended December 31, 1977**  
*(with prior year's figures for comparison)*

	1977	1976
WORKING CAPITAL PROVIDED:		
From operations:		
Loss for the year before extraordinary items . . . . .	\$ (771,039)	\$ —
Items not affecting working capital:		
Depreciation and amortization of fixed assets . . . . .	1,512,958	—
Amortization of deferred costs . . . . .	162,481	—
Deferred income taxes . . . . .	(371,236)	—
Provided from operations . . . . .	<u>533,164</u>	<u>—</u>
Increase in long-term loans from the President and majority shareholder . . . . .	—	529,471
Net proceeds on sale of head office lease . . . . .	—	172,471
Sale of subsidiaries . . . . .	6,548,167	—
Consisting of:		
Fixed assets . . . . .	\$ 3,821,872	
Deferred costs . . . . .	481,001	
Gain on sale of subsidiaries . . . . .	2,872,658	
Deferred income taxes . . . . .	370,760	
Long-term debt . . . . .	(1,090,908)	
Other assets . . . . .	92,784	
	<u>\$ 6,548,167</u>	
Decrease in other assets . . . . .	31,057	30,727
Total . . . . .	<u>7,112,388</u>	<u>732,669</u>
WORKING CAPITAL APPLIED:		
To operations:		
Loss for the year before extraordinary items . . . . .	—	1,283,771
Items not affecting working capital:		
Depreciation and amortization of fixed assets . . . . .	—	(1,609,722)
Amortization of deferred costs . . . . .	—	(289,985)
Deferred income taxes . . . . .	—	916,758
Applied to operations . . . . .	<u>—</u>	<u>300,822</u>
Fixed asset additions . . . . .	1,018,103	617,913
Decrease in long-term loans from the President and majority shareholder . . . . .	925,000	—
Decrease in other long-term debt . . . . .	4,645,737	982,025
Financing costs . . . . .	22,807	—
Opening and establishment costs . . . . .	29,992	—
Deferred development costs . . . . .	—	93,774
Total . . . . .	<u>6,641,639</u>	<u>1,994,534</u>
NET WORKING CAPITAL PROVIDED (APPLIED) . . . . .	<u>\$ 470,749</u>	<u>\$ (1,261,865)</u>
WORKING CAPITAL FROM (TO) OPERATIONS PER SHARE . . . . .	<u>\$ .23</u>	<u>\$ (.13)</u>

*The accompanying notes are an integral part of the financial statements.*



# SKYLINE HOTELS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### December 31, 1977

#### 1. SIGNIFICANT ACCOUNTING POLICIES:

##### Basis of consolidation:

The consolidated financial statements include the accounts of the company and its wholly-owned Canadian subsidiary. The operating results of the United Kingdom subsidiaries, which were sold during the year, have been consolidated up to the effective date of disposition (see Note 5).

##### Foreign currencies:

Long-term debt has been translated at rates contracted for future settlement or, where no such contracts have been entered into, at exchange rates in effect at the year end.

##### Inventories:

Inventories are valued at the lower of cost and replacement cost. Cost is determined on the first-in, first-out basis.

##### Fixed assets and depreciation:

In respect of new hotels and major additions to existing facilities, the company follows the policy of capitalizing interest for the construction period and for the opening and establishment period, during which operating results are deferred. The company does not commence depreciation of new facilities until the opening and establishment period has expired.

Depreciation and amortization are determined under the straight-line method at the following annual rates:

Buildings .....	1-2/3%
Paving .....	7%
Equipment and sundry .....	7-1/2% to 10%
Leasehold interest and improvements .....	Term of lease (including in certain instances term of renewal)

##### Tableware, linen and uniforms:

A stock of tableware, linen and uniforms is included in fixed assets in respect of each facility in operation. Replacements are expensed when placed in service. Tableware, linen and uniforms purchased as reserve stock are valued at cost and included in prepaid expenses.

##### Deferred costs:

##### a) Development costs of proposed projects:

These costs include investigation costs, legal fees and other expenses in connection with the development of specific projects under current consideration. Such costs are added to the cost of project fixed assets, deferred as opening and establishment costs or written off, as appropriate. Also included in 1976 were costs incurred relative to the subsequent sale of the United Kingdom subsidiaries (see Note 5).

##### b) Opening and establishment costs:

The operating results of new hotels (or major additions) and catering facilities are included under the deferred category of opening and establishment costs until the facility is fully operative or until receipt of a completion certificate from the project architects. In no event is this period to exceed ninety days from the first day of commencement of business. The opening and establishment costs are amortized over a ten-year period commencing on the date the new facility is considered fully operative, or at the end of the ninety-day period, whichever is the earlier.

##### c) Financing costs:

Financing costs, which relate to long-term debt, are amortized in equal annual amounts over the terms of the respective debt issues.

#### Income taxes:

The company uses the tax allocation basis of accounting for income taxes. On this basis, income taxes are provided in the year transactions affect net income regardless of when such transactions are recognized for tax purposes. Timing differences giving rise to deferred income taxes relate primarily to claiming capital cost allowances and deferred costs for income tax purposes of amounts different from depreciation and amortization charged in the financial statements.

#### 2. FIXED ASSETS:

Fixed assets and accumulated depreciation and amortization at December 31 are as follows:

	1977			1976
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Net Book Value
Land .....	\$ 2,836,093	\$ —	\$ 2,836,093	\$ 2,138,284
Paving .....	508,596	261,261	247,335	279,193
Buildings .....	23,575,382	2,944,611	20,630,771	20,595,243
Equipment and sundry .....	9,536,426	4,687,736	4,848,690	6,023,297
Leasehold interest and improvements .....	2,068,186	618,810	1,449,376	4,320,241
	<u>\$38,524,683</u>	<u>\$ 8,512,418</u>	<u>30,012,265</u>	<u>33,356,258</u>
Tableware, linen and uniforms — at cost .....			803,041	1,078,849
			<u>\$30,815,306</u>	<u>\$34,435,107</u>

During the year, the company decided not to proceed with the project which had been contemplated for the land held for future development. Accordingly, the carrying value of this land has been transferred to fixed assets.

#### 3. ASSETS PLEDGED:

The company's bank indebtedness, including the bank term loans referred to in Note 4, is collaterally secured by a general assignment of book debts and a second charge on the Toronto Hotel property (see Note 4).

#### 4. LONG-TERM DEBT:

Long-term debt comprises:

	1977	1976
First mortgage, 9.5%, due 1982, secured by the Toronto Hotel property .....	\$10,952,000	\$11,294,000
First mortgage, 2% above the bank prime rate, due 1978, secured by the Old Mill Restaurant property .....	2,200,000	2,200,000
Bank term loans:		
U.S. dollar loans at interest rates of 2% per annum above the six-month, London Inter-Bank Euro dollar offer rate .....	7,660,800	7,051,775
Canadian dollar loans .....	—	4,500,000
Loans from the President and majority shareholder of the company at various rates from 10% to 12.5% .....	1,140,492	2,073,701
Instalment contracts secured by retention of title to equipment .....	144,815	112,943



First mortgage debenture stock and U.S. dollar bank term loan of United Kingdom subsidiary .....	—	1,345,008
Promissory note .....	—	145,000
Sundry (secured) .....	20,859	21,135
	<u>22,118,966</u>	<u>28,743,562</u>
Less amount due within one year .....	639,165	895,940
	<u>\$21,479,801</u>	<u>\$27,847,622</u>

Subsequent to the year end, the company entered into an 11.5% second mortgage in the amount of \$9,000,000, due in 1982, secured by the Toronto Hotel property. In addition, the \$2,200,000 first mortgage on the Old Mill property was renegotiated in the amount of \$2,500,000, due in 1983 and bearing interest at a rate of 2.25% above the bank prime rate. The excess proceeds of these refinancings were applied to the reduction of U.S. dollar bank term loans, to the elimination of current bank indebtedness and to provide additional working capital.

As a term of the repayment of the above bank indebtedness, the bank has removed the second mortgage on the Toronto Hotel property (see Note 3).

If the refinancings had been in place at December 31, 1977, the working capital deficiency would have been reduced from \$4,928,000 to \$695,000. A pro forma summary of the consolidated financial position would appear as follows:

ASSETS	
Current assets .....	\$ 2,823,000
Fixed assets .....	30,815,000
Deferred costs .....	701,000
Other assets .....	168,000
Total .....	<u>\$34,507,000</u>
LIABILITIES AND SHAREHOLDERS' EQUITY	
Accounts payable and accrued liabilities .....	\$ 2,737,000
Current portion of long-term debt .....	781,000
Long-term debt .....	25,713,000
Deferred income taxes .....	561,000
Capital stock .....	2,951,000
Surplus .....	1,764,000
Total .....	<u>\$34,507,000</u>

After giving effect to the refinancings, long-term debt falls due as follows:

1979 .....	\$ 3,495,000
1980 .....	1,852,000
1981 .....	879,000
1982 .....	17,843,000
1983 and thereafter .....	1,644,000
	<u>\$25,713,000</u>

##### 5. SALE OF SUBSIDIARIES:

In May 1977, the company sold its interest in Skyline Hotels International Limited and Skyline Hotels (London) Limited, through which it operated the Park Tower Hotel and Skyline Heathrow Hotel, both in London, England. The gain on sale, after provision for income taxes of \$259,935, amounted to \$2,872,658. Operations for 1977 include \$2,583,789 (1976 — \$6,195,000) of gross revenues from operations of these subsidiaries and \$245,000 (1976 — \$330,000) of related income after income taxes.

6. STATUTORY INFORMATION:

- a) The aggregate direct remuneration paid by the company to the directors and senior officers of the company for 1977 was \$208,370 (1976 — \$251,944).
- b) In 1974 the company authorized an employee share purchase plan to enable senior employees to utilize corporate funds for the purchase of treasury shares of the company. Loans under the plan at December 31, 1977 of \$125,532 (1976 — \$140,821) are included in other assets in the accompanying balance sheet. These loans are being repaid without interest over the period to November 1982.
- c) As at December 31, 1977, debts owing to the company by directors, officers and shareholders, exclusive of amounts loaned to the trustee in respect of shares being purchased by the participants under the employee share purchase plan, aggregated \$22,236 (1976 — \$52,101).

7. LEASE COMMITMENTS:

The company and its subsidiaries have contractual obligations in respect of long-term leases of hotel real estate having various expiry dates from 1978 to 1991, some of which contain options to renew for further periods. Rental costs incurred in respect of these obligations for the year ended December 31, 1977 aggregated \$1,188,255 (1976 — \$1,784,045). The minimum rental costs (exclusive of escalation and percentage of sales adjustments) to be incurred in each of the years 1978 to 1983 aggregate approximately \$1,278,000.

8. ANTI-INFLATION LEGISLATION:

The company is subject to the provisions of the Anti-Inflation Act and Regulations relating to the restraint of prices, profit margins, compensation and dividends.

Directors

W. Hodgson  
McKechnie  
Hamilton  
Hull  
Andrews  
Tiviluk  
E. Hodgson

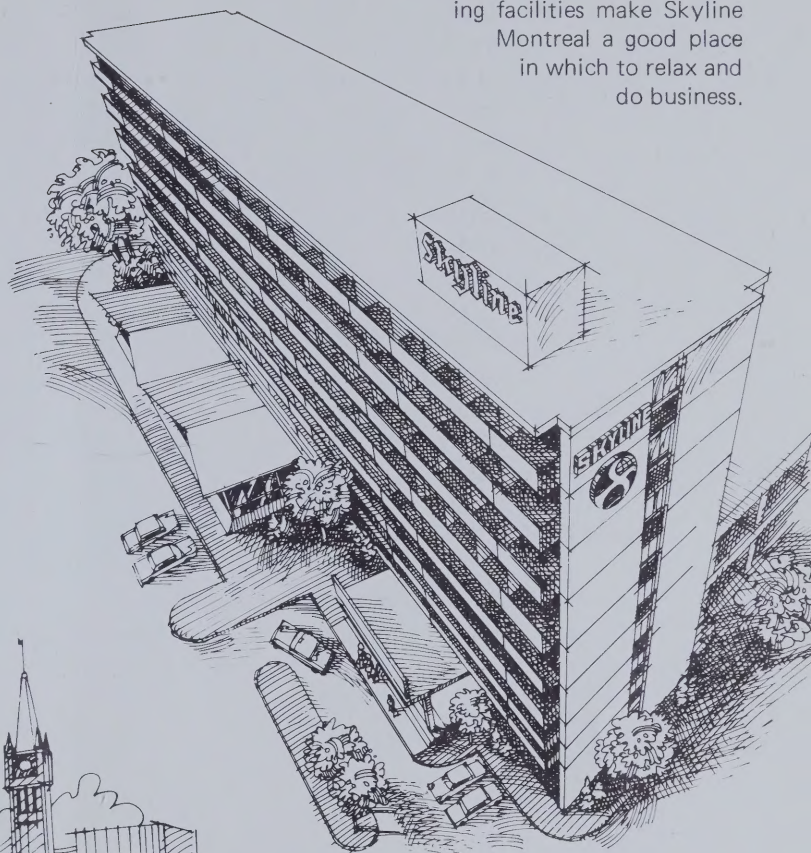


## SKYLINE MONTREAL

250 rooms, close to Dorval Airport, convention facilities for up to 400. Indoor pool, and excellent dining facilities make Skyline Montreal a good place in which to relax and do business.

## SKYLINE OTTAWA

450 rooms in the heart of downtown Ottawa. Enjoy: indoor parking, health club, indoor swimming pool, live entertainment, meeting and convention facilities for 1500 and elegant dining in the Top of the Hill supper club overlooking the Parliament Buildings.



## SKYLINE BROCKVILLE

A comfortable 80 room hotel in the Skyline tradition. Great service in the heart of the Thousand Islands resort area at the cross-roads between Ottawa, Toronto, and Montreal.

